

**CHFFA REVENUE BOND FINANCING PROGRAM
EXECUTIVE SUMMARY**

<p>Applicant: Catholic Healthcare West ("Obligated Group" or "CHW") San Francisco, California San Francisco County</p> <p>Project Sites: Various</p> <p>Facility Types: General acute/sub acute and outpatient care, acute psychiatric, chemical dependency rehabilitation, outpatient surgery, and skilled nursing services</p> <p>Prior Borrower: Yes.</p> <p>Obligated Group: See Exhibit 5</p>	<p>Amount Requested: \$140,000,000</p> <p>Requested Loan Term: Up to 30 years</p> <p>Authority Meeting Date: October 27, 2011</p> <p>Resolution Number: 372</p>																				
<p>Background: CHW is a California nonprofit public benefit corporation headquartered in San Francisco, California. The CHW system was founded in 1986. CHW, together with its subsidiary corporations, comprise the Catholic Healthcare West System ("CHW System"). The CHW System operates 41 hospitals throughout California, Arizona and Nevada. In FY 2011, CHW operated 8,716 licensed acute beds and had approximately 411,115 acute patient admissions for a total of 1,783,605 acute patient days.</p>																					
<p>Use of Proceeds: CHW will use the bond proceeds to current refund three prior bond series that were used to finance and/or refinance certain projects at the facilities of the Obligated Group Members. This refunding may result in a net present value saving of approximately \$10.1 million.</p>																					
<p>Type of Issue:</p> <p>Credit Enhancement:</p> <p>Expected Credit Rating:</p> <p>Financing Team:</p>	<p>Negotiated private placement of fixed rate bonds</p> <p>None</p> <p>A2/A/A+ Moody's/S&P/Fitch</p> <p><i>Please see Exhibit 1 to identify possible conflicts of interest</i></p>																				
<p>Financial Overview: CHW's income statement appears to exhibit positive operating results over the review period along with increasing revenue. CHW's balance sheet also appears solid with a strong operating debt service coverage ratio and steady net assets.</p>																					
<p>Estimated Sources of Funds:</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 30%;">Fixed rate bond proceeds</td> <td style="width: 10%; text-align: right;">\$</td> <td style="width: 10%; text-align: right;">140,000,000</td> <td style="width: 5%;"></td> </tr> <tr> <td>Total Estimated Sources</td> <td style="text-align: right;">\$</td> <td style="text-align: right;">140,000,000</td> <td></td> </tr> </table>	Fixed rate bond proceeds	\$	140,000,000		Total Estimated Sources	\$	140,000,000		<p>Estimated Uses of Funds:</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 30%;">Refunds various bond series</td> <td style="width: 10%; text-align: right;">\$</td> <td style="width: 10%; text-align: right;">137,940,000</td> <td style="width: 5%;"></td> </tr> <tr> <td>Financing costs</td> <td></td> <td style="text-align: right;">2,060,000</td> <td></td> </tr> <tr> <td>Total Estimated Uses</td> <td style="text-align: right;">\$</td> <td style="text-align: right;">140,000,000</td> <td></td> </tr> </table>	Refunds various bond series	\$	137,940,000		Financing costs		2,060,000		Total Estimated Uses	\$	140,000,000	
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<p>Due Diligence: Staff has received and reviewed the Eligibility, Legal Review, Religious Due Diligence, Savings Pass Through, Seismic, and the Iran Contracting Act certificate. All documentation satisfies the Authority's requirements.</p>																					
<p>Staff Recommendation: Staff recommends the Authority approve Resolution Number 372 for Catholic Healthcare West in an amount not to exceed \$140,000,000 subject to the conditions in the resolution, including a bond rating of at least investment grade by a nationally recognized rating agency. Macias Gini & O'Connell, LLP, the Authority's financial analyst, and Public Financial Management ("PFM"), the Authority's financial advisor, concur with the Authority's staff recommendation.</p>																					

STAFF SUMMARY AND RECOMMENDATION
Catholic Healthcare West (“CHW”)

October 27, 2011

Resolution Number: 372

I. PURPOSE OF FINANCING: Between May and November 2009, CHFFA issued three series of bonds, each of which was issued in a long-term interest rate period, and loaned the proceeds thereof to CHW. The existing long-term interest rate period for each series expires July 1, 2012, at which time CHW would need to convert each series into a different interest rate period (e.g., daily, weekly, etc.), several of which would require obtaining a liquidity facility; adjusting each series into another long-term interest rate period; or seeking approval for refunding bonds to be issued within 90 days prior to July 1, 2012. By entering into a forward private placement agreement with BMO Capital Markets in November 2011, agreeing that refunding bonds will be issued prior to July 1, 2012 to refund each of the three series of bonds and establishing the interest rate for the refunding bonds, CHW has an opportunity to lock-in favorable long-term fixed interest rates and to reduce its exposure to potential market volatility existing during the period prior to July 1, 2012.

When the bonds are issued, bond counsel’s opinion on the tax-exempt treatment of interest on the bonds will be qualified and the opinion of CHW’s counsel will be limited in its scope, as CHW will not complete a full diligence process in connection with the issuance of the bonds. CHW has agreed to deliver a full scope opinion the next time that CHW has a public offering of bonds and completes the full diligence that it typically completes as part of the public offering process. At the time CHW’s counsel delivers a bring-down opinion, it is expected that some of the qualifications contained in bond counsel’s opinion may be removed. However, it is expected that bond counsel’s opinion will continue to have some non-standard qualifications. For this reason, the bond indenture, under which the bonds will be issued, will provide that bonds may be sold or transferred only to purchasers who execute an investor letter in the form to be set forth in the bond indenture and in which the investor acknowledges that the bond counsel opinion is qualified.

Refunding Bonds \$137,940,000
CHW will current refund the following three bond issues.

*Variable Rate Health Facility Revenue Bonds (Catholic Healthcare West),
2009 Series B*

A portion of the proceeds of the 2009 Series B Bonds was used to finance the cost of certain capital improvements and equipment acquisitions at (i) the following health facilities owned and operated by the Corporation: St. Mary’s Medical Center, Mercy General Hospital, St. Joseph Medical Center of Stockton, Mercy San Juan Medical Center, Dominican Hospital, Marian Medical Center and Woodland Memorial Hospital, and (ii) the following health facility owned and operated by Saint Francis Memorial Hospital: Saint Francis Memorial Hospital.

Variable Rate Health Facility Revenue Bonds (Catholic Healthcare West),
2009 Series C

A portion of the proceeds of the 2009 Series C Bonds was used to finance the cost of certain capital improvements and equipment acquisitions at (i) the following health facilities owned and operated by the Corporation: St. Mary's Medical Center, Mercy General Hospital, St. Joseph Medical Center of Stockton, Mercy San Juan Medical Center, Dominican Hospital, Marian Medical Center and Woodland Memorial Hospital, and (ii) the following health facility owned and operated by Saint Francis Memorial Hospital: Saint Francis Memorial Hospital.

Variable Rate Health Facility Revenue Bonds (Catholic Healthcare West),
2009 Series G

A portion of the proceeds of the 2009 Series G Bonds was used to refinance the California Statewide Communities Development Authority Variable Rate Health Facility Revenue Bonds (Catholic Healthcare West) 2008 Series F (the "CSCDA 2008F Bonds") (\$60,000,000). The proceeds of the CSCDA 2008F Bonds were used as follows:

CSCDA 2008F

A portion of the proceeds of the CSCDA 2008F Bonds was used to finance and refinance the cost of certain capital improvements and equipment acquisitions at:

(i) the following health facilities owned and operated by the Borrower:

Arroyo Grande Community Hospital
California Hospital Medical Center
French Hospital
Glendale Memorial Hospital
Marian Medical Center
Mercy General Hospital
Mercy Hospital (Bakersfield)
Mercy Hospital Folsom
Mercy Medical Center Merced
Mercy Medical Center—Mt. Shasta
Mercy Medical Center—Redding
Mercy San Juan Medical Center
Mercy Southwest Hospital
Methodist Hospital of Sacramento
Sequoia Health Services
St. Bernardine Medical Center
St. Elizabeth Community Hospital
St. John's Pleasant Valley Hospital
St. John's Regional Medical Center
St. Joseph's Medical Center of Stockton
St. Mary Medical Center—Long Beach
St. Mary's Medical Center—SF
St. Vincent Medical Center
Woodland Memorial Hospital

(ii) the following health facility owned and operated by Community Hospital of San Bernardino:
Community Hospital of San Bernardino

(iii) the following health facility owned and operated by Saint Francis Memorial Hospital:
Saint Francis Memorial Hospital

and (iv) the following health facility owned and operated by Sierra Nevada Memorial Hospital:
Sierra Nevada Memorial Hospital

<i>Financing Costs</i>		<u>2,060,000</u>
• <i>Underwriter's discount</i>	\$550,000 ¹	
• <i>Estimated cost of issuance</i>	<u>1,510,000</u>	
<i>Total Estimated Uses of Funds</i>		<u>\$140,000,000</u>

¹ This estimate is preliminary and is subject to change.

II. PROPOSED COVENANTS, SECURITY PROVISIONS AND DISCLOSURES:

Obligated Group:

The CHW System undertakes most of its borrowing activities under a Master Indenture. Under the Master Indenture, a group composed of CHW and certain other corporations in the CHW System (each a “Member” of the “Obligated Group”) have agreed to be jointly and severally obligated for debt incurred under the Master Indenture. Only the corporations that are Members of the Obligated Group are jointly and severally obligated under the Master Indenture. None of the Non-Member Entities have assumed any financial obligation related to payment of or security for any of the 2011 Bonds or any other obligations incurred under the Master Indenture.

After reviewing the Obligated Group’s credit profile, including its current financial profile, prior bond transactions and considering what the market will support, CHW, Public Financial Management, Inc., and the underwriters have concluded the covenants listed below balance the interests of the Obligated Group, the Authority, and the investors and are consistent with covenants that have applied to the Obligated Group’s prior bond transactions and that the Obligated Group’s current financial situation does not suggest additional covenants should be required.

Unconditional Obligation to Pay. *CHW agrees to pay the Bond Trustee all amounts required to pay the principal and purchase price of and premium, if any, and interest on the Bonds when due, and other payments and expenses designated in the Loan Agreements. The Obligated Group guarantees all such payments under the obligation issued under the Master Indenture (the “Bond Obligation”). All Revenues (which will include payments made pursuant to or with respect to the Loan Agreement or the Bond Obligation) and any other amounts held in a fund or account under the Bond Indenture are pledged to secure the full payment of the Bonds.*

Debt Service Coverage Requirement. *The Master Indenture contains a debt service coverage requirement based on 1.10 times the Debt Service Requirement, calculated for the Obligated Group as a whole at the end of each fiscal year. A debt service coverage requirement is a ratio measuring ability to make interest and principal payments as they become due by assessing the amount of revenue available to meet debt service payments.*

Pledge of Gross Revenues. *Each Obligated Group Member pledges to deposit all revenue, income, receipts and money received (“Gross Revenues”) into a Gross Revenue Fund and has granted a security interest to the Master Trustee in such Gross Revenue Fund.*

Covenant Against Liens. *Each Obligated Group Member agrees not to create, assume or permit any Lien upon any of its Property or Gross Revenues, other than Permitted Liens.*

Limitations on Additional Indebtedness and Guaranties. *Each Obligated Group Member agrees not to incur additional Indebtedness or enter into or become liable in respect of any Guaranty, unless authorized by various financial performance or projection measures set out in the Master Indenture.*

Limitations on Consolidation, Merger, Sale or Conveyance. *Each Obligated Group Member agrees not to merge, consolidate with any other corporation which is not an Obligated Group Member or sell or convey all or substantially all of its assets to any Person which is not an Obligated Group Member unless authorized by various limiting measures set out in the Master Indenture.*

Disposition of Assets. *Each Obligated Group Member agrees not to sell, lease or otherwise dispose of any Property, including liquid assets, unless authorized by various limiting measures set out in the Master Indenture.*

Comply with SEC Rule 15c2-12. *CHW, on behalf of the Obligated Group, will take such action as is necessary to assist the underwriter in complying with SEC Rule 15c2-12 (the "Rule"). CHW will contractually agree, while any of the Bonds remain outstanding, to disclose certain financial information and operating data to the SEC web site (EMMA) and to report certain "listed events" with respect to the Bonds within the time frame set forth in the Rule.*

Staff has reviewed the entirety of this financing package and finds it to be acceptable.

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III. FINANCIAL STATEMENTS AND ANALYSIS:

CATHOLIC HEALTHCARE WEST - SYSTEM*

Financial Position

(In thousands)

	<u>As of June 30,</u>		
	<u>2011</u>	<u>2010</u>	<u>2009</u>
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 704,044	\$ 796,034	\$ 868,964
Short-term investments	825,849	596,307	397,011
Collateral held under securities lending program	290,526	272,986	298,091
Assets limited as to use	828,632	692,704	1,067,718
Patient accounts receivable, net	1,257,296	1,203,344	1,243,837
Other current assets	743,086	501,782	433,339
Total current assets	<u>4,649,433</u>	<u>4,063,157</u>	<u>4,308,960</u>
Assets limited as to use:			
Board-designated assets for:			
Capital projects	3,139,101	2,676,537	2,141,324
Workers' compensation	367,554	335,511	296,054
Hospital professional and general liability	162,091	166,050	172,426
Under bond indenture agreements for:			
Capital projects	51,679	147,671	353,940
Debt service	190,975	136,641	111,862
Bond reserves	26,387	26,423	26,539
Donor-restricted	439,932	394,168	381,580
Other	68,213	62,476	59,295
Less: amount required to meet current obligations	<u>(828,632)</u>	<u>(692,704)</u>	<u>(1,067,718)</u>
Net assets limited as to use	<u>3,617,300</u>	<u>3,252,773</u>	<u>2,475,302</u>
Property and equipment, net	4,102,551	3,894,111	3,782,449
Ownership interests in health-related activities	558,178	422,546	311,996
Other long-term assets, net	196,163	200,060	197,349
Total assets	<u>\$ 13,123,625</u>	<u>\$ 11,832,647</u>	<u>\$ 11,076,056</u>

(Continued)

*The Obligated Group consists of 96% of the consolidated unrestricted net assets of the CHW System.

CATHOLIC HEALTHCARE WEST - SYSTEM*

Financial Position

(In thousands)

(Continued)

As of June 30,

	2011	2010	2009
LIABILITIES AND NET ASSETS			
Current liabilities:			
Current portion long-term debt	\$ 107,381	\$ 69,910	\$ 61,581
Demand bonds subject to short-term liquidity arrangements	574,000	483,000	880,275
Accounts payable	418,155	392,720	370,852
Payable under securities lending program	291,148	273,945	304,781
Due to government agencies	-	-	18,756
Accrued salaries and benefits	507,915	485,510	454,286
Accrued workers' compensation	31,647	29,971	40,255
Accrued hospital professional and general liability	61,304	42,659	34,608
Pension and other post-retirement liabilities	278,369	279,805	210,766
Other accrued liabilities	871,042	791,691	543,728
Total current liabilities	<u>3,140,961</u>	<u>2,849,211</u>	<u>2,919,888</u>
Other liabilities:			
Worker's compensation	234,938	219,927	209,321
Hospital professional and general liability	228,559	141,532	127,725
Pension and other postretirement liabilities	598,697	906,232	723,110
Other	115,823	118,469	205,029
Total other liabilities	<u>1,178,017</u>	<u>1,386,160</u>	<u>1,265,185</u>
Long-term debt, net of current portion	<u>3,556,817</u>	<u>3,691,469</u>	<u>3,359,251</u>
Total Liabilities	<u>7,875,795</u>	<u>7,926,840</u>	<u>7,544,324</u>
Net assets:			
Unrestricted - attributable to CHW	4,715,076	3,426,489	3,155,600
Unrestricted - noncontrolling interest	98,304	89,205	-
Temporarily restricted	326,503	291,040	285,870
Permanently restricted	107,947	99,073	90,262
Total net assets	<u>5,247,830</u>	<u>3,905,807</u>	<u>3,531,732</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 13,123,625</u>	<u>\$ 11,832,647</u>	<u>\$ 11,076,056</u>

Financial Ratios:

**Proforma (a)
FYE June 2011**

Debt service coverage (x) operating	1.15	1.90	1.56	1.90
Debt service coverage (x) net	2.74	4.53	1.94	(0.43)
Debt/Unrestricted Net Assets (x)	0.82	0.76	1.07	1.08
Margin (%)		1.87	0.88	2.92
Current Ratio (x)		1.48	1.43	1.48

(a) Recalculates FY 2011 audited results to include the impact of the financing approved by the Authority in October 12, 2011.

*The Obligated Group consists of 96% of the consolidated unrestricted net assets of the CHW System.

CATHOLIC HEALTHCARE WEST - SYSTEM*

Statement of Activities (unrestricted)

(In thousands)

	<u>As of June 30,</u>		
	<u>2011</u>	<u>2010</u>	<u>2009</u>
Revenues and other support:			
Net patient revenue	\$ 9,600,663	\$ 8,599,950	\$ 8,234,194
Premium revenue	558,103	514,699	485,255
Revenue from health-related activities, net	135,341	93,514	12,241
Contributions	255,941	204,114	22,018
Other operating revenue	15,320	18,137	204,196
Total revenues & support	<u>10,565,368</u>	<u>9,430,414</u>	<u>8,957,904</u>
Expenses:			
Salaries and benefits	5,127,564	4,809,065	4,511,516
Supplies	1,425,271	1,372,573	1,307,267
Provision for bad debts	848,883	745,303	680,585
Purchased services and other	2,366,077	1,751,731	1,636,322
Depreciation	432,438	421,774	386,643
Interest, net	167,571	244,006	171,601
Loss on early extinguishment of debt	-	2,734	2,844
Total expenses	<u>10,367,804</u>	<u>9,347,186</u>	<u>8,696,778</u>
Operating income	197,564	83,228	261,126
Other income:			
Investment income, net	402,474	402,474	(387,471)
Excess (deficit) of revenues over expenses	<u>600,038</u>	<u>485,702</u>	<u>(126,345)</u>
Unrestricted net assets:			
Excess (deficit) of revenues over expenses	917,175	485,702	(126,345)
Effect of changes in accounting principles for pension and postretirement plans	-	-	(37,648)
Change in net unrealized gains (loss) on available for sale investments	5,528	2,425	(3,045)
Net assets released from restrictions	14,479	12,855	15,005
Funded status: pension/ ther post-retirement benefit plans	324,174	(256,538)	(557,321)
Gain (loss) from discontinued operations	1,593	4,007	437
Change in accumulated unrealized derivative gains (loss), net	9,099	(917)	-
Change in fair value of interes rate swaps	9,055	4,952	(56,871)
Donated property and equipment	14,207	19,623	16,712
Other	2,379	(2,137)	(511)
Increase in unrestricted net assets	<u>1,297,689</u>	<u>269,972</u>	<u>(749,587)</u>

*The Obligated Group consists of 96% of the consolidated unrestricted net assets of the CHW System.

CATHOLIC HEALTHCARE WEST - SYSTEM*

Statement of Activities (unrestricted)

(In thousands)

(Continued)

	As of June 30,		
	2011	2010	2009
Temporarily restricted net assets:			
Contributions	39,025	35,329	39,114
Net assets acquired in merger	7,166	4,432	-
Net realized/unrealized gains (losses) on investments	-	-	(5,173)
Net assets released from restrictions	(37,829)	(38,047)	(46,220)
Interest in net assets of unconsolidated foundations	29,093	2,802	(40,016)
Other	(1,993)	654	995
Increase (decrease) in temporarily restricted net assets	<u>35,462</u>	<u>5,170</u>	<u>(51,300)</u>
Permanently restricted net assets:			
Contributions	2,289	5,576	546
Net realized/unrealized gains on investments	62	68	122
Interest in net assets of unconsolidated foundations	5,961	4,140	1,089
Other	560	(973)	(1)
Increase in permanently restricted net assets	<u>8,872</u>	<u>8,811</u>	<u>1,756</u>
Increase (decrease) in net assets	<u>1,342,023</u>	<u>283,953</u>	<u>(799,131)</u>
Net assets, beginning of year	<u>3,905,807</u>	<u>3,621,854</u> **	<u>4,330,863</u>
Net assets, end of year	<u>\$ 5,247,830</u>	<u>\$ 3,905,807</u>	<u>\$ 3,531,732</u>

*The Obligated Group consists of 96% of the consolidated unrestricted net assets of the CHW System.

** In 2009, Financial Accounting Standards Board (FASB) issued statement No. 140 ("ASU 2009-16") resulting in a change in reporting requirement. Therefore, the end of year net assets for FY 2009 does not match the beginning of year net assets for FY 2010.

Net Patient Revenues

Fiscal Year Ended June 2011

	<u>Percent</u>
Medicare fee for service	31
Contracted rate payors	28
Medicaid fee for service	15
Medicare managed care fee for service	9
Self-pay and other	8
Medicaid managed care fee for service	6
Commercial capitated	2
Medicare capitated	<u>1</u>
Total	<u>100</u>

Financial Discussion -- Statement of Activities (Income Statement)

CHW's income statement appears to exhibit positive operating results - over the review period along with increasing revenue.

Important Facts to Note:

- Overall, the CHW System reported consolidated operating income of \$197.6 million for FY 2011 compared to consolidated operating income of \$83.2 million for FY 2010.
- Revenues increased 12% in FY 2011 as compared to FY 2010. Adjusted patient days increased 0.3% in FY 2011 compared to FY 2010 and adjusted admissions increased 1% over the same period. Net patient and premium revenue per adjusted patient day increased 11.1% in FY 2011 compared to FY 2010, primarily as a result of \$583.7 million of provider fee revenue. According to CHW, revenues increased due to rate increases, which were partially offset by adverse shifts in payor mix; a lower portion of services provided to patients covered by contracted rate payors and a higher portion of services provided to patients covered by lower paying government programs caused a \$150 million shortfall in revenues.
- Revenue from health-related activities, included \$79.7 million of non-cash income related to CHW's interest in the increase in unrestricted net assets of Scripps Health compared to \$50.6 million in FY 2010. Other operating revenue contains a gain of \$47.3 million related to the transaction whereby CHW transferred and contributed to Phoenix Children's Hospital, Inc. ("PCH"), an Arizona nonprofit corporation, substantially all of the pediatric program services and related assets of its facility in Phoenix, Arizona, in exchange for a 20% membership interest in PCH.
- On a same-facility comparative basis, adjusted admissions increased 1% in FY 2011 as compared to FY 2010 and total unrestricted revenues and other support increased 11.8% in FY 2011 as compared to FY 2010.
- Salaries and benefits expense increased 6.6% in FY 2011 as compared to FY 2010, or 6.3% per adjusted patient day. According to CHW, the increase was due to increased wage and benefit costs.
- Supply expenses increased 3.8% in FY 2011 as compared to FY 2010, or 3.5% per adjusted patient day. According to CHW, the increase related primarily to increased costs of pharmaceuticals for increased oncology and specialty pharmacy usage and surgical supply increases driven by new products and technology.
- Provision for bad debts, as a percentage of net patient and premium revenues, increased to 8.4% in FY 2011 from 8.2% in FY 2010.

- Purchased services and other expenses increased 35.1% in FY 2011 compared to FY 2010 due primarily to provider fee expense of \$359.1 million and the California Health Foundation and Trust (“CHFT”) grant expense of \$25.8 million. According to CHW, without the provider fee and CHFT grant expense, the 13.1% increase between years was caused by higher professional liability costs, and lesser professional services, coverage fees paid to physicians, and provider costs associated with capitation arrangements related to the health plan activity associated with Saint Mary’s Regional Medical Center, out of network costs, and repairs and maintenance costs.
- Depreciation expense was \$432.4 million in FY 2011 compared to \$421.8 million in FY 2010. According to CHW, the increase was associated with the increases in capital expenditures and large projects placed into service during the last year.
- Net interest expense, decreased to \$167.6 million in FY 2011 from \$244.0 million in FY 2010. Within interest expense, market adjustments on swaps and amortization of amounts in unrestricted net assets was a \$41 million non-cash gain during FY 2011, compared to a \$57.1 million non-cash loss during FY 2010. Excluding the effect of market adjustments on swaps and amortization of amounts in unrestricted net assets, the increase in interest expense was due primarily to lower capitalized interest expense in connection with completion of large projects.
- The consolidated excess of revenues over expenses, which is the sum of operating income and investment income, was a gain of \$917.2 million in FY 2011 compared to a gain of \$485.7 million in FY 2010. According to CHW, in addition to operating income, CHW received \$116 million in interest and dividend income, approximately \$183 million in gains from sales of securities, and net unrealized income of \$442 million.

Financial Discussion -- Statement of Financial Position (Balance Sheet)

CHW’s balance sheet also appears solid with a strong operating debt service coverage ratio and steady net assets.

Important Facts to Note:

- CHW’s balance sheet remains steady with total net assets growing from \$3.5 billion in FY year 2009 up to \$5.2 billion in FY year 2011. Capital resources (consisting of cash and cash equivalents, short-term investments and Board-designated assets for capital projects) amounted to \$4.7 billion at June 30, 2011 compared to \$4.1 billion at June 30, 2010. The increase was primarily related to investment earnings and operating cash flow.
- Investment income, net, was a gain of \$719.6 million in FY 2011 compared to a gain of \$402.5 million in FY 2010. The increase was due primarily to \$442.4 million in net unrealized gains recorded in FY 2011, in contrast to the \$215.8 million in net unrealized gains recorded in FY 2010.

- For FY 2011, CHW's debt service coverage ratio from operational results is 1.90x while the debt service coverage from increase in unrestricted net assets is 4.53x. With this financing, CHW's proforma debt service coverage ratio based on operational results appears to be 1.15x and based on the increase in unrestricted net assets, it appears to be 2.74x, indicating that CHW should be capable of meeting its new debt obligations.

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IV. DUE DILIGENCE:

Due diligence has been completed with regard to the following items:

- **Section 15438.5(a) of the Act (Savings Pass Through):** CHW properly completed and submitted the “Pass-Through Savings Certification,” in addition to a narrative explaining how it intends to pass through savings.
- **Section 15491.1 of the Act (Community Service Requirement):** CHW properly completed and submitted this certification and indicated that Medi-Cal and Medicare patients are accepted.
- **Compliance with Seismic Regulations:** CHW properly completed and submitted a description of its seismic requirements.
- **Religious Due Diligence**
- **Legal Review**
- **Iran Contracting Act Certificate:** CHW properly submitted the certificate to the Authority.

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EXHIBIT 1

FINANCING TEAM

Trustee: The Bank of New York Mellon Trust Company, N.A.

Trustee's Counsel: Davis Wright Tremaine LLP

Master Trustee: U.S. Bank N.A.,

Master Trustee Counsel: Dorsey & Whitney

Issuer's Counsel: Attorney General's Office

System Counsel: Mannatt , Phelps & Phillips, LLP

Borrower's Financial Advisor: Kaufman, Hall & Associates, Inc.

Rating Agencies: Moody's, Standard & Poor, Fitch

Issuer's Financial Advisor: Public Financial Management

Issuer's Financial Analyst: Macias Gini & O'Connell, LLP

Bond Counsel: Sidley Austin, LLP

Private Placement Agent: BMO Capital Markets

Private Placement Agent's Counsel: Kutak Rock LLP

Auditor: Deloitte & Touche

Anticipated Purchasers: BMO Harris², and Deutsche Bank Securities, Inc.

² It is an affiliate of BMO Capitol Markets.

EXHIBIT 2

UTILIZATION STATISTICS

The following table shows utilization statistics for the acute care hospitals operated by the Obligated Group Members for the fiscal years ended June 30, 2011, 2010 and 2009:

	Fiscal Year Ended June 30 ³		
	2011	2010	2009
Licensed Acute Beds ^{1,2}	8,716	8,885	8,777
Acute Admissions ¹	411,115	412,005	406,384
Acute Patient Days ¹	1,783,605	1,779,081	1,793,283
Acute Average Length of Stay (days) ¹	4.3	4.3	4.4
Medicare PPS Acute Average Length of Stay (days)	4.9	4.9	5.0
Outpatient Revenue as a % of Total Patient Service Revenue	35%	34%	32%

¹ Acute care statistics include psychiatric and rehabilitation beds.

² Licensed beds include beds in suspense status.

³ Amounts for all periods exclude statistics for facilities that have been closed and/or disposed off. It also excludes healthcare services provided by facilities within the CHW System that are outside the Obligated Group.

EXHIBIT 3

OUTSTANDING DEBT

As of fiscal year ending June 30, 2011, CHW has approximately \$3.557 billion in outstanding debt of which \$1.805 billion is Authority debt. On October 12, 2011, the Authority approved a financing of \$600 million, of which approximately \$244.705 million is refunding of Authority debt. With this financing, CHW will be refunding approximately \$140 million of which \$137.330 million is Authority debt. With this current financing, and the October 12, 2011 financing, CHW's Authority debt will amount to \$1.995 billion.

EXHIBIT 4

BACKGROUND, GOVERNANCE AND LICENSURE

Background

CHW is a California nonprofit public benefit corporation headquartered in San Francisco, California. CHW, together with its subsidiary corporations, comprise the Catholic Healthcare West System (“CHW System”), which is one of the largest not-for-profit acute healthcare delivery systems in the United States as measured by annual revenue. The CHW System operates 40 hospitals throughout major California markets and in Arizona and Nevada metropolitan markets. The CHW System’s facilities currently include approximately 8,800 licensed acute care beds and approximately 800 licensed skilled nursing beds. The CHW System maintains prominent market shares in many of its service areas, and many of its hospitals rank among the finest in the nation. With a significant presence in Sacramento, San Francisco, Southern California, San Joaquin Valley, Central Coast, Central California, Northern California and Santa Cruz, the CHW System’s California operations are well dispersed throughout the state.

The CHW System operates under a single operating company model utilizing a variety of common corporate services. The CHW System also utilizes a common accounting system, common accounting practices and a single internal audit firm, Catholic Healthcare Audit Network, LLC. A single corporate financial planning model, budget process and capital allocation process is in place. CHW utilizes centralized debt compliance monitoring and unified debt management on behalf of the CHW System. Daily cash management is also under common administration, as is pooled investment management.

The hospital activities of the sponsors of the CHW System date back to 1856. The CHW System was founded in 1986, when two religious congregations brought together the 10 facilities they sponsored at the time. Since then, the CHW System has grown significantly in size, through mergers, affiliations and development of expanded markets. Today, the CHW System includes many facilities that are community sponsored as well as those that are religiously sponsored.

Obligated Group

The CHW System undertakes most of its borrowing activities under a Master Indenture. Under the Master Indenture, a group composed of CHW and certain other corporations in the CHW System (each a “Member” of the “Obligated Group”) have agreed to be jointly and severally obligated for debt incurred under the Master Indenture. Other entities affiliated with CHW are not Members of the Obligated Group (the “Non-Member Entities”). Only the corporations that are Members of the Obligated Group are jointly and severally obligated under the Master Indenture. None of the Non-Member Entities have assumed any financial obligation related to payment of or security for any of the 2011 Bonds or any other obligations incurred under the Master Indenture. The Non-Member Entities in the CHW System represented approximately 1% of the consolidated revenue and 3-4% of consolidated unrestricted net assets of the CHW System for the fiscal years ended June 30, 2011, 2010 and 2009, as shown in the audited financial statements for those years.

CHW has “membership” rights and powers exercised either directly or indirectly with respect to each of the other Obligated Group Members. Generally, these membership powers include the right of CHW to approve budgets, capital expenditures, liens and encumbrances, changes

in corporate charter documents, certain asset acquisitions and sales, and mergers and dissolutions, among other things. Generally, CHW also has the right to approve the appointment of the CEO of each other Obligated Group Member, and generally the CEO is an employee of CHW.

In total, there are seven Obligated Group Members: CHW, which directly owns and operates 34 acute care hospitals, plus six subsidiary corporations. Of the six subsidiary corporations that are Obligated Group Members, four operate hospitals. These four subsidiary Obligated Group Members operate four acute care hospitals. In total, in the Obligated Group, there are 38 licensed acute care hospitals that are covered by 36 licenses (in two situations, a single license covers two inpatient locations). Of the acute care hospitals, two hospital facilities are leased to CHW until 2049. One hospital facility that currently serves as backup during periods of high census is leased to CHW until 2013, at which time management anticipates it will no longer be needed due to completion of additional capacity at another nearby CHW hospital. The remaining Obligated Group Members are the CHW Medical Foundation, which operates an integrated multi-site medical clinic in the Sacramento, Woodland, Stockton, Grass Valley, Merced, Santa Cruz, Redwood City, San Francisco, and Ventura, California areas and has professional services agreements with professional corporations that employ approximately 460 physicians and extenders, and Mercy Senior Housing, Inc., which provides assisted living housing in a 118-unit facility in Sacramento, California.

Licensure, Certification and Accreditation

Each of the hospitals operated by an Obligated Group Member is licensed for the level of care it delivers and is certified to participate in the Medicare program and its state's Medicaid program, and each is accredited by The Joint Commission. Each skilled nursing facility unit operated by an Obligated Group Member is certified to participate in the Medicare and Medicaid programs. The residential care facility for the elderly operated by Mercy Senior Housing, Inc. is certified by the California Department of Social Services.

Governance

Subject to the rights reserved to Sponsors and Corporate Members, CHW is currently governed by a nineteen-member (19) Board of Directors. The Board of Directors, in turn, approves the election of the governing bodies for each of the Obligated Group Members, except that CHW's powers to approve directors are subject to restrictions in certain cases as noted under the Obligated Group. The Board of Directors is currently comprised of the seven corporate members and the President/Chief Executive Officer of CHW, and all other members are independent directors without any other formal relationship with CHW or its affiliates.

The Board of Directors has established "Hospital Community Boards" for the acute care facilities that are directly owned and operated by CHW. The Hospital Community Boards are delegated certain local oversight responsibilities for quality of care and medical staff matters, and serve as advisory bodies to the CHW Board of Directors with respect to strategic business planning for local facilities, local operational issues and facility level implementation of community benefit programs. The CHW Board of Directors as well as the Board's Finance Committee must approve all material debt, borrowings, loans, guarantees, encumbrances or liens for the CHW System and may do so through direct authorizing resolutions or the Board may from time to time implement or amend formal policies regulating certain of these activities.

EXHIBIT 5

LIST OF OBLIGATED GROUP MEMBERS AND HEALTHCARE FACILITIES

Obligated Group Member/Facilities	Type of Facility	Location	Service Areas
Catholic Healthcare West	N/A	San Francisco, CA	
Arroyo Grande Community Hospital	Acute Care	Arroyo Grande, CA	Central Coast
California Hospital Medical Center – Los Angeles	Acute Care	Los Angeles, CA	Greater Los Angeles
Chandler Regional Medical Center	Acute Care	Chandler, AZ	Arizona
Dominican Hospital	Acute Care	Santa Cruz, CA	Greater Bay Area
French Hospital Medical Center	Acute Care	San Luis Obispo, CA	Central Coast
Glendale Memorial Hospital and Health Center	Acute Care	Glendale, CA	Greater Los Angeles
Marian Medical Center (two locations)	Acute Care	Santa Maria, CA	Central Coast
Mercy General Hospital	Acute Care	Sacramento, CA	Greater Sacramento
Mercy Gilbert Medical Center	Acute Care	Gilbert, AZ	Arizona
Mercy Hospital (two locations)	Acute Care	Bakersfield, CA	Central California
Mercy Hospital of Folsom	Acute Care	Folsom, CA	Greater Sacramento
Mercy Medical Center Merced	Acute Care	Merced, CA	Central California
Mercy Medical Center, Mt. Shasta	Acute Care	Mt. Shasta, CA	North State
Mercy Medical Center Redding	Acute Care	Redding, CA	North State
Mercy San Juan Medical Center	Acute Care	Carmichael, CA	Greater Sacramento
Methodist Hospital of Sacramento	Acute Care	Sacramento, CA	Greater Sacramento
Northridge Hospital Medical Center	Acute Care	Northridge, CA	Greater Los Angeles
Saint Mary's Regional Medical Center	Acute Care	Reno, NV	Northern Nevada
Sequoia Hospital	Acute Care	Redwood City, CA	Greater Bay Area
St. Bernardine Medical Center	Acute Care	San Bernardino, CA	Greater Los Angeles
St. Elizabeth's Community Hospital	Acute Care	Red Bluff, CA	North State
St. John's Pleasant Valley Hospital	Acute Care	Camarillo, CA	Central Coast
St. John's Regional Medical Center	Acute Care	Oxnard, CA	Central Coast
St. Joseph's Behavioral Health Center	Acute Psychiatric	Stockton, CA	Central California
St. Joseph's Hospital and Medical Center	Acute Care	Phoenix, AZ	Arizona
St. Joseph's Medical Center of Stockton	Acute Care	Stockton, CA	Central California
St. Mary Medical Center	Acute Care	Long Beach, CA	Greater Los Angeles
St. Mary's Medical Center	Acute Care	San Francisco, CA	Greater Bay Area
St. Rose Dominican Hospital Rose de Lima Campus	Acute Care	Henderson, NV	Southern Nevada
St. Rose Dominican Hospital San Martin Campus	Acute Care	Las Vegas, NV	Southern Nevada
St. Rose Dominican Hospital Siena Campus	Acute Care	Henderson, NV	Southern Nevada
Woodland Memorial Hospital	Acute Care	Woodland, CA	Greater Sacramento
Bakersfield Memorial Hospital	Acute Care	Bakersfield, CA	Central California
Community Hospital of San Bernardino	Acute Care	San Bernardino, CA	Greater Los Angeles
Mercy Senior Housing, Inc. ⁽¹⁾	N/A	Sacramento, CA	Greater Sacramento
CHW Medical Foundation ⁽²⁾	N/A	Various	Various
Saint Francis Memorial Hospital	Acute Care	San Francisco, CA	Greater Bay Area
Sierra Nevada Memorial-Miners Hospital	Acute Care	Grass Valley, CA	Greater Sacramento

⁽¹⁾ Operates a residential care facility.

⁽²⁾ Operates medical clinics pursuant to professional service agreements with physician groups.